INEQUALITY FOR ALL – DISCUSSION GUIDE
COMPREHENSION CHECK-IN AND LEGISLATOR EDUCATION

Q: Why is it that the middle class – not the wealthy – are the true "job creators"?
A: 70% of the U.S. economy is based on consumer spending. The bulk of that spending is done by the middle class. As Nick Hanauer explains, "Even a person like me who earns a thousand times as much as the typical American, doesn't buy a thousand pillows a year." No matter how much money Hanauer has, there are only so many haircuts and so many dinners out he can consume. Hypothetically speaking, if Nick had less money, and a thousand middle class people had more, they would each purchase haircuts and the barber would have many more customers and would purchase more products from suppliers, requiring the hiring of additional staff to meet the demand. Very rich people can't spend enough to drive a consumer economy. Bottom line: The middle class represents 70% of spending and is the great stabilizer of the U.S. economy. No increase in spending by the rich can make up for a shrinking or weak middle class.

Q: Some income inequality is inevitable; capitalist systems use financial reward as the primary incentive to work hard and be inventive. So why worry about income inequality at all?
A: Stagnating wages, combined with increasing costs of basics (housing, child care, etc.), leads to less disposable income. It's the spending of disposable income that drives our consumer economy, so the concentration of wealth in increasingly fewer hands weakens the economy for everyone.

Furthermore, income inequality undermines the American Dream. Robert Reich explains that as income inequality rises, chances for upward mobility decline. Deborah Frias puts it this way: "How do you build wealth when you have nothing?" Deborah and her husband both work full time. She is also attending school to improve her job prospects, but this adds to her debt and her family is barely making ends meet without that added debt.

Eventually, as Reich points out, "Losers of rigged games can become very angry." People who don't share in the benefits start looking for scapegoats and the fabric of society starts pulling apart.

Q: What are the parallels between 1928 and 2007?
A: Both years preceded major economic crashes. In both years:
The top 1% took home more than 23% of total income in the U.S.
The wealthy put much of their money in the financial sector, which bloomed as a result.
The financial sector invested in a limited number of assets: housing, gold, & speculation.
Only a small percentage of workers were represented by unions (approximately 3% then, less than 12% now).

Middle class incomes have stagnated or dropped over the same period during which the American economy has more than doubled. So where did all that money go? The facts are clear – it went to the top earners. The last time wealth was as concentrated as it is now was 1928, on the eve of the Great Depression.

Q: Reich refers to policies in place from 1947-1977. What were the defining economic factors of these prosperous years?
A:
More than 1/3 of all workers were represented by a union.
The top tax rate ranged from 91% to 70%.
The top 1% took home less than 10% of the nation's income.
The average CEO pay was approximately fifty times greater than what the average employee earned (compared to 350x greater now).
The ratio of debt to household income hovered near 1:1.
By the late 50s, the U.S. had the best-educated workforce in the world, in part because higher education was affordable.

The GI Bill made it possible for veterans of WWII and the Korean Conflict to attend college. Increased attendance numbers led to an expansion of public universities and tuition at those institutions was often free or minimal. This made higher education affordable and accessible, even to students who were not military veterans. As a result, the rates of those with college degrees increased from 5.9% in 1940, to 24% in the late 1970s.

Q: Why is income inequality a threat to democracy?
A: Robert Reich explains that, “When so much wealth accumulates at the top, with money comes the capacity to control politics… It’s not that people are rich, it’s that they abuse their wealth …” The wealthy contribute to political candidates and the access that their contributions buy entrenches inequality by securing subsidies, bailouts and policies that lead to even greater inequality.

Concentration of wealth leads to political control in fewer hands and therefore undermines democracy. The Supreme Court’s decision in Citizens United allowed the super wealthy and corporations to contribute nearly unlimited amounts of money to political candidates. The presence of money isn’t new, but the quantity is, and that skews where power resides (away from the majority of citizens).

Political polarization mirrors income inequality. When inequality is high, polarization increases. People who believe the system is rigged against them get angry. Both Occupy Wall Street and the Tea Party are vestiges of this anger – and so is the scapegoating of minority groups and immigrants.

Q: Who are the winners in today’s economy?
A:
Consumers – many products are cheaper.
Investors – profits increase when companies keep employee pay low and/or fewer workers are employed.
Top executives – current economic policies support a system in which the average CEO earnings are 350 times greater than the average employee. In one example, while Viacom was saying it was forced into layoffs, CEO Philippe Dauman earned $84.5 million annually.
Financiers – Since de-regulation, the financial sector has become the fastest growing sector of the economy, but it has grown in ways that reward executives, rather than producing more jobs.
Nobody. A handful of investors and top executives appear to do better, but that is short-lived. Reich notes, “The rich actually do better with an economy that is growing faster, when everyone else is doing better. This is not a zero sum game.” The more people who are included in prosperity, the more prosperity increases.

Q: The middle class dealt with wage stagnation for decades, so why is it a problem now?
A: We’ve maxed out the coping mechanisms that middle class families used to maintain their standard of living:
Family income increased by having more family members work. Women entered the workforce in greater numbers.
Everyone worked longer hours to earn the same amount of money.
We let people go into debt. When debt was based on equity in houses and housing prices are going up, that worked. But when housing prices fell, the debt bubble burst.

Q: How do we measure inequality?
A: There is no official definition of “middle class.” Instead, we compare:
Income in actual dollars.
Percent earned of the nation’s total income.
Percent of income paid in taxes.
Percent paid of total tax revenue.

Q: How does the current tax code favor the wealthy and disadvantage the middle class?
A: In the U.S., when income inequality was at its lowest (1950s), the top marginal tax rate was highest (91%). Prior to the Reagan administration, the top rate was always above 70%. The current rate is now 39.6%, and income inequality is at all-time highs.

Currently, as Warren Buffett explains, the “tax code is tilted towards the rich and away from the middle class.” It’s actually upside-down – those with more pay fewer taxes, than people with less. Though the top rate for wage-based income is 39.6%, the rate for income from investments (capital gains) is only 20%. That means wealthy people pay a lower tax rate than the rest of us. Examples from the film include Buffett, whose tax rate is about 17%, while the people who work in his office were paying an average of 32%; Mitt Romney paid 13.9% while Ladd and Nancy Rasmussen paid 33% (or more); and Nick Hanauer paid 11% on an eight-figure income.

Hanauer says, "When you give rich people tax breaks, all in the name of job creation, all that really happens is that the fat cats get fatter, and of course that's what's happened over the last 30 years. It's the signature feature of the economy."

Robert Reich adds, "Taxes are the price we pay to finance the things we can't do individually." If the wealthy don't pay their fair share and the middle class is stagnant, you're going to have a budget crisis. That leads to cutbacks in government services and programs on which the middle class relys, which contributes to the 'Vicious Cycle.'

In addition to tax policy, the wealthy are also favored by financial practices, including charging lower interest rates and fees to those with more funds.

Q: What is the economic impact of globalization?
A: According to Reich, globalization hasn't reduced the number of jobs available to Americans; it has reduced their pay. For example, an average meatpacker in the 1970s earned $40,599 (in today's dollars); in 2010, the average pay for the same job was $24,190. A 1970s bank teller earned $27,920; and in 2010, that had declined to $24,100.

Reich uses the iPhone to illustrate how globalization distributes the wealth that is generated from production and sales. When you purchase an iPhone, your dollars for labor and materials go to: Japan (34%), Germany (17%), South Korea (13%), U.S. (6%), and China (3.6%). It's not that all dollars flow to the location of the cheapest labor – assembly is only one part of the process. Assembly of the iPhone takes place in China, but assembly is not a high value addition to the product, so the Chinese don't garner a large percentage of the dollars from your purchase.

Furthermore, significant dollars do not automatically flow to the nation where the company is headquartered (in this case, the U.S). Technology allows for parts of production to be parceled out across the globe and the resulting rewards go to those who contribute the most value to the product. So although the iPhone is developed by an American company (Apple), most of the dollars for labor and materials go to Germany, which has a workforce capable of producing highly precise parts.

Q: What is the economic impact of new technology?
A: New technologies have increased efficiency (which leads to greater productivity and profit), but they have decreased the number of jobs. The film uses Amazon as an example. Nick Hanauer explains that to do $70 billion in sales, Amazon employs 60,000 workers. If "mom & pop" retail outlets generated that much revenue, they would employ ten times that many people (600,000 – 800,000 workers). Another example is Robert Vaclav, who loses his job when Circuit City goes out of business because the brick and mortar retail chain couldn't compete with Amazon.

Q: What role do large corporations play in income inequality?
A: Reich states that, "Big companies are not designed to generate good jobs in the United States; big companies are designed to create profits." At Calpine, Reich explains that all companies with shareholders use pressure and influence to keep labor costs down. When there isn't pressure from unions, wages and benefits remain low.

Responding to the declines that she has experienced, Nancy Rasmussen asks, "If you have a billion dollars, why do you need that little bit that I have?" Robert Vaclav loses his job at Circuit City as the company cuts payroll expenses by letting go those who have been there "too long."

The Citizens United decision increased corporate influence on the political system by equating money with speech and giving corporations the same rights to free speech as citizens. Corporations can therefore buy access to politicians and exert enormous influence on who is elected. What they ask of politicians is to support policies that will increase their profits; but those policies often serve to undermine working people and the middle class.